

Applying Indicators of Business Model Red Flags Take-Aways from 2020 Single-Stakeholder Consultations

This note sets out Shift's key take-aways from a series of single-stakeholder consultations we organized between July and August 2020, as part of the [Valuing Respect project](#). The consultations focused on opportunities and challenges for **boards, company practitioners, business associations, banks, investors, governments and Civil Society Organizations** to use the Valuing Respect **Business Model Red Flags** Indicators and supporting resources in their work.

Following a brief overview of the resource, the note is organized into two sections. **Part I summarizes general reflections and recommendations** from stakeholders about future adaptations to support these uses and how to achieve broad-based engagement and uptake of the resource. **Part II provides a high-level overview of the use cases or entry-points** that each stakeholder group identified as most promising.

The **Annex provides a list of individuals who participated** in the conversations. Shift is grateful for the frank and constructive inputs of all participants which will inform our final stages of work and early-adopter application in late 2020 and early 2021.

I. Resource Overview

What? The Business Model Red Flags Indicators ([link to Beta Version](#)) are features of business models that carry inherent and significant human rights risks. The indicators and supporting content are a tool that can be used by both companies themselves and their financiers, investors and other stakeholders to catalyze and guide the engagement of company executives and boards in addressing human rights risks related to the company's business model.

Why? Business model red flags are leading indicators of significant negative impacts on people, while evidence of meaningful steps to address the red flags can be leading indicators of positive outcomes. Without attention to these red flags – in particular from company executives – the way that a business is designed will lead to ever-recurring human rights risks and impacts and increased risks to business as a result.

How? The resource provides users within and outside of companies with:

- A quick-view menu of business model **red flags to look out for**;
- Questions and information to **diagnose** if a red flag is in fact a risk for a given company;
- Analysis and examples of the **human rights risks and business risks** associated with each red flag;
- **Guidance on how to take action** including due diligence lines of inquiry and mitigation examples.



I. Headline Reflections and Recommendations

A. Attention to business models is an integral part of identifying a company's salient human rights risks and could strengthen analysis by companies and financial institutions. A number of participants reflected that human rights risks associated with a company's business model are likely to be salient – that is, among the most severe human rights risks for that company – at the very least because the risks to people will recur across time and locations if baked into the business model. The conversation among company practitioners included a recommendation that Shift make clear how considering human rights harms linked to business models can:

- Increase attention to root causes of human rights risks that are internal to how a company or industry operates, as against solely focusing on issues related to operating contexts.
- Help companies and their stakeholders to look beyond established risks to people that the company understands relatively well and identify issues that may be on the horizon due to changes to a company's business model – such as the use of emerging digital and automation technologies.
- Enable investors and financiers to be less reactive and incident-driven and more proactive, by seeing the business model red flags as leading indicators of whether major incidents are likely to occur or recur.

B. The idea of getting to the core of how business gets done was welcomed across all stakeholder consultations. But some participants expressed concern that the term “red flags” may turn off some executives from engaging with this approach. In a similar vein, a few participants proposed including the positive side of certain business model features identified. For many participants, including investors, the idea of a “red flag” was seen as suggesting the need for further analysis, inquiry and engagement with a company. However, some suggested that in the mind of executives a “red flag” denotes something that is an established problem or risk, versus an in issue that requires diagnosis and exploration. It is clear that this concern is exacerbated if the formulation or presentation of a red flag becomes too broad so as to suggest that every effort by a company to compete, increase revenue and reduce costs is problematic.

Additionally, some participants suggested that the resource could reinforce that because a number of business model features offer benefits to society, care should be taken to avoid mitigation steps leading to more severe human rights harms. Others noted that this important point should not, however, belie the fact that certain business models are not sustainable, as evidenced by growing inequalities and brought into focus by the COVID-19 pandemic. The Shift team noted throughout the conversations that all of these comments would feed into their current thinking about how to frame the resource.

C. Participants welcomed that the sector-agnostic nature of the red flags sparks fresh ways of thinking about human rights risks for a given company or industry. At the same time, there is a clear demand for easy ways to use the tool in situations where organizations think, or are structured along, sectoral lines. In a poll conducted during the consultation with company practitioners, 67% of participants indicated that they felt that more than 10 of the red



flags were relevant for their company, and most commented that the company is not currently dealing with all of them. Discussions in other consultations reaffirmed that the red flags approach can help users move beyond an analysis based on traditional sector-based assumptions to identify risks to people that may be less typical but equally significant. Nonetheless, many participants advocated for a “middle ground” approach that would enable a user to understand which red flags are more likely to be important for a given sector but without taking away the important step of companies and investors undertaking their own analysis. Given that many organizations – across civil society and the investment community – structure their processes and teams along sectoral lines, it was felt that making these connections would make the tool easier to use.

D. Banks, investors, civil society and government representatives reflected a need for guidance on accessing information about companies’ business models and any steps taken to address related human rights risks. Some identified ESG data providers as key interlocutors in this effort. While it is clearly feasible for a company to access information about its own business model choices and actions it is taking to address related human rights harms, this is much less true for external stakeholders. Participants therefore suggested that Shift address this challenge by both: a) expanding the guidance to list potential avenues for external stakeholders to gather data/evidence such as via written requests, desk research, and engagement with company leaders; and b) connecting with data providers, benchmarks/indices, and reporting standards organizations to explore how they can increase publicly available information about business model risks. A few company participants noted the challenge of accessing data also applies if they are to use the red flags to assess and engage with business partners.

E. There is interest in more examples of efforts by companies to mitigate human rights risks linked to their business models, and of alternative models that carry less severe human rights risk. All stakeholder groups expressed appreciation for how the resource offers inspiration, grounded in real-world examples, for ways that a company could mitigate each of the business model-related human rights risks set out. Many advised that it would be ideal if Shift could find ways to increase the number of mitigation and alternative business model examples. The Shift team noted that they would continue to populate the resource throughout 2020 and consider opportunities for crowd-sourcing examples and keeping the content updated in the future.

Note: A number of participants helpfully offered specific inputs on the content and wording of some of the Red Flags. Shift has already begun to engage with these individuals bilaterally to integrate comments into the next draft of the document.



II. Overview of Use-Case Opportunities Discussed

The table below provides a short summary of the ways to use the resource that different stakeholder groups identified as the most compelling and feasible in the context of their own work. Items in grey were seen as promising but requiring more dialogue.

In discussions, banks and investors recognized that the use cases ascribed below to company boards and company practitioners were also applicable to them as companies seeking to meet their own human rights commitments and responsibilities. Furthermore, the consultation with leaders and secretariats of business associations centered around how their organizations can enable company practitioners to apply the red flags in the ways outlined below.

| Headline | Specific use-cases and entry-points |
|--|---|
| <p>Boards: The Red Flags can help members of governance bodies to better fulfil their oversight duties and stewardship role with regards to risks to people in the company's operations and value chain.</p> | <p>Board directors, including non-executive directors, could use the resource to:</p> <ul style="list-style-type: none"> • Support improved risk management – by ensuring their understanding of risks to people and the business includes risks inherent in the existing business model or in any changes to it that are under consideration. • Analyze incidents - by ascertaining whether negative incidents are an outlier and one-off occurrence or a function of the business model and so likely to repeat. • Reinforce sustainable/responsible business conduct – by paying attention to whether the company's business model helps or hinders it in meeting sustainability objectives. |



Company Practitioners: The Red Flags can help practitioners **identify if the company's business model is increasing risks** to people and the business and **elevate analysis and proposed action plans to top leadership.**

Individuals leading the implementation of a company's human rights or sustainability programs, could use the resource to:

- **Enhance analysis of salient human rights risks** – by identifying whether any root causes of human rights risks lie within the company's business model and so require internally oriented risk mitigation efforts.
- **Assessing business units and partners** – by identifying where their business models increase risks to people and therefore create barriers to the effectiveness of mitigation efforts.
- **Focus collective action** – by spotlighting where industry, cross-industry or multi-stakeholder collaboration is needed to mitigate risks or enable alternative business models to develop.
- **Evaluate M&A targets** – by identifying the target's business model features that carry human rights risks and so preparing the company to confront possible past and future human rights risks that come with the transaction.
- **Strengthen Internal Audit** – by scrutinizing whether internal controls are adequate to manage risks to people if these risks flow from the company's business model.

Banks: The Red Flags provide a fresh lens for banks to **strengthen their human rights risk analysis** of clients and investees and make **engagement with them more effective.**

Banks – in particular sustainability teams and relationship managers - could use the resource to:

- **Inform their engagement with clients/investees about incidents** – by ascertaining whether negative incidents are an outlier or a function of the client's or investee's business model, and then adapting post-incident engagement and financing accordingly.
- **Enhance risk assessment regarding clients/investees** - by identifying where their business models increase risks to people, the business and the bank.
- **Offer differentiated value to clients/investees** – by providing expertise about how clients and investees can address human rights risks that are inherent to their business models.
- **Improve targeted leverage** – such that banks focus on client/investee business models where it is apparent that the business model is a root cause of human rights risk.



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| | <ul style="list-style-type: none"> • Maximize value of C-suite engagement – by crafting questions that focus the often-limited time they have to engage with client/investee executives on identifying and mitigating any business model-related risks. • Enhance portfolio screening – by engaging data providers to research and analyze companies for business model red flags. |
| <p>Investors: The Red Flags provide a fresh lens for investors to strengthen their human rights risk analysis of investee companies and make engagement with them more effective.</p> | <p>Institutional investors could use the resource to:</p> <ul style="list-style-type: none"> • Inform their engagement with investees about incidents – by ascertaining whether negative incidents are an outlier or a function of the investee company’s business model, and then adapting post-incident engagement and financing accordingly. • Enhance risk assessment regarding investees - by identifying where their business models increase risks to people, the business and the investor. • Inform proxy resolutions – by helping investors target human rights risks that are embedded in business models and therefore likely to recur. • Enhance portfolio screening – by engaging data providers to research and analyze instances where there are human rights risks embedded in a company’s business model. |
| <p>Governments: The Red Flags can be used by government representatives to inform reporting requirements, regulation and other measures aimed at advancing business respect for human rights.</p> | <p>Governments could use the resource to:</p> <ul style="list-style-type: none"> • Set priorities - by targeting policy or regulatory efforts at high risk business models that are prevalent in the operations and value chains of companies domiciled or operating in their jurisdiction, as against only focusing on the largest industries. • Inform mandatory due diligence requirements – by requiring companies to identify and address situations in which their business model may undermine human rights due diligence efforts. |



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- **Enhance development finance programs** – by ensuring that business models deployed to deliver sustainable development gains are not simultaneously creating human rights harms.



III. Next Steps

Over the course of 2020 and into the final months of the Valuing Respect project in 2021, Shift will:

- Develop a final version of the Red Flags resource, informed by the feedback from these consultations, which will include:
 - The Business Model Red Flag Indicators
 - Supporting materials for each Red Flag
 - Short, stakeholder-specific supplements to guide use of the resource
- Work with organizations interested to become early adoptors of the Red Flags approach, and publish “vignette” case studies about early field-testing.
- Disseminate and support uptake of the resource, including in collaboration with the project’s regional partners.
- Develop, consult on and refine a roadmap for possible future work to update the red flags and supporting materials/guidance.



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Annex: Consultation Participants

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|--------------------------|---|----------------------|--|
| Ruben Zandvliet | ABN Amro | David Schilling | Interfaith Center on Corporate Responsibility |
| Richard Kooloos | ABN Amro | George Dallas | International Corporate Governance Network |
| David Lawrence | AIM-Progress | Josh Zinner | Investor Alliance for Human Rights |
| Peter Frankenthal | Amnesty International | Shameela Soobramoney | Johannesburg Stock Exchange |
| Lina Sandstrom | AP Fund 2 | Julie Vallat | L'Oreal |
| Anna Pot | APG | Steve Crown | Microsoft |
| Luke Waldren | Barclays | Yann Wyss | Nestle |
| Aziz Filabi | BlackRock | Yann Wyss | Nestle |
| Ariel Smilowitz | BlackRock | Wilhelm Mohn | Norges Bank Investment Management |
| Vania borgerth | Brazilian Integrated Reporting Network | Caroline Eriksen | Norges Bank Investment Management |
| Michal Jobski | Budimex | Peter Nestor | Novartis |
| Phil Bloomer | Business and Human Rights Resource Centre | Daniel Blume | OECD |
| Ariel Meyerstein | Citigroup | Rahcel Wilshaw | Oxfam |
| Camille Le Pors | Corporate Human Rigths Benchmark | Jaren Dunning | PepsiCo |
| Nina Schuler | DFID | Beata Faracik | Polish Institute for Human Rights and Business |
| Shoko Sekiguchi | Domini | Rob Lederer | Responsible Business Alliance |
| Simone de Boer | Dutch Ministry of Foreign Affairs | Carlos Busquets | Responsible Business Alliance |
| Marte Johnson Stensrud | Equinor | Tanja Rasmussen | Rio Tinto |
| Theo Jaekel | Ericsson | David Parham | SASB |
| Tom Dodd | European Commission | Martin Buttle | Shareaction |
| Holger Dreiseitl | German Federal Foreign Office | Ed Potter | Shift Board Member (Formerly Coca-Cola) |
| Catie Shavin | Global Business Initiative on Human Rights | Margaret Wachenfeld | Themis; Institute for Human Rihgths and Business |
| Julie Kafoed | Global Compact Office | Harpreet | UNDP Asia-Pacific |
| Allison Burger | Gold-Fields | Doug Nystrom | Walmart |
| Cecilia Tiblad Berntsson | H&M | Filippo Veglio | WBCSD |
| Mark Latonero | Harvard Carr Center, Technology and Human Rights Fellow | Chris Fletcher | Wells Fargo |
| Jane Nelson | Harvard CSR Initiative | Dan Neale | World Benchmarking Alliance |
| Benjamin Gatland | Heineken | Paul Druckman | World Benchmarking Alliance / Shift Board Member |
| Whitney Mayer | Hershey | Erinch Sahan | World Fair Trade Organization |
| Hannah Clayton | ICMM | | |
| Mercedes Socota | ING | | |